



“Adani Gas Limited Q2 FY20 Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and welcome to the Adani Gas Limited Q2 FY20 Earnings Conference Call. We have with us on the call today the management of Adani Gas Mr. Suresh Manglani – CEO, Mr. Parag Parikh – CFO, Mr. Yogiraj Navathe – SVP, Mr. Preyash Jhaveri - AGM and Mr. Vimal Dhani – Investor Relations.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Suresh Manglani. Thank you and over to you, sir.

Suresh Manglani: Good afternoon everyone. The board of directors of Adani Gas met today and has approved the Financial Results for Second Quarter FY20.

I am happy to announce that Adani Gas has once again delivered an all-round good financial and operational performance for the Quarter 2 FY20. During the Quarter 2 FY20 compared to corresponding quarter of previous year overall volume grew by 7% to 146 MMSCM. Operating EBITDA grew by 29% to Rs. 136 crore and PAT has increased by 137 crore to Rs. 120 crore.

Now let me announce the result in more detail. In the second quarter of financial year 20 our CNG volume grew by 9% and PNG volume by 6%. Overall, volume grew by 7% to 146 MMSCM as against 136 MMSCM in the corresponding period last year. During Quarter 2 FY20, revenue from operations rose by 12% to Rs. 503 crore versus Rs. 448 crore in Q2 FY19. Operating EBITDA grew by 29% to Rs. 136 crore versus Rs. 106 crore in Q2 FY19. Operating EBITDA margin were healthy at 27%, profit after tax for Q2 FY increased by 137% to Rs. 120 crore.

On a six-month basis that is first half of FY20 our CNG volume grew by 9% and PNG volume by 7%. Overall volume grew by 8% to 283 MMSCM as against 262 MMSCM in the corresponding period last year. During H1 FY20 revenue from operations rose by 16% to Rs. 982 crore versus 844 crore in H1 FY20. Operating EBITDA grew by 30% to Rs. 271 crore versus Rs. 208 crore in H1 FY19. Operating EBITDA margins were healthy at 28%. Profit after tax for H2 and FY20 increased by 89% to Rs. 199 crore.

On infrastructure front our total PNG connections have now reached to 4,10,000 till September 19. On CNG front our CNG retail outlets have now increased to 86. With our focus on customer orientation technology drive, speed and quality of implementation. We are fully geared up to expand our operations across India and are committed to fueling the growth of the nation with a goodness of natural gas.

Our team is dedicated to provide, safe, reliable, convenient and environment friendly PNG and CNG 24/7. I am confident that with continued support from all stakeholders and motivated team Adani Gas the journey ahead will be much more exciting and successful. We would like to acknowledge the role played by our stakeholders, customers, dealers, suppliers, employees and business partners and are thankful for their trust and continued support.

We are happy to announce that TOTAL joined Adani Gas to create one of the large India's largest downstream energy partnership. This partnership will help accelerate Adani Gas target to serve 7.5% of India's population across 38 geographical areas which includes 19 geographical areas in partnership with Indian Oil Corporation, the JV company IOAGPL.

Moderator:

Thank you very much. We will now begin with the question and answer session. The first question is from the line of Manikantha Garre from Axis Capital. Please go ahead.

Manikantha Garre: Sir, can you please give us a split of change in volumes between domestic, industrial and commercial that is my first question and the second question would be can you please give us some more color on the other financial liabilities movement to 397 crores from roughly 80 to 90 crores FY19 those are my first set of questions?

Suresh Manglani: So first question your was some breakup on the volume. So the volume of first half of 283 million you can say CNG was 146 roughly and PNG was 137. So and the you wanted to know anything else.

Manikantha Garre: Sir, there was a movement of other financial liability from 80 to 90 crores in FY19 to 397 crores in H1, so if you can please throw some color on what more got added to the other financial liabilities?

Suresh Manglani: So the liability movement of 96.5 Cr to 398 Cris on account of re-classification of Customer Security deposit from Non-Current Financial Liabilities to Current Financial Liability

Manikantha Garre: Sir if I can add two more questions here sir what is the guidance for volume growth and secondly I see that our EBITDA margin has improved a lot in the last three quarters it reached to range between 7 to 8 in Q2 at 9.3 and is there any change in strategy here are you looking at any range of EBITDA margins going forward?

Suresh Manglani: The EBITDA margin point of view what you are seeing the healthy increase to around 27%, 28% in quarter and half is because of couple of steps which we had taken. One is we have optimized the sourcing part of a gas, so we have moved significantly towards the spot gas whatever flexibility we had in term contract that also we have used, and gas sourcing has been a little softer. Second is the optimization of the OPEX part. So put together OPEX optimization and the gas sourcing optimization has given us the better EBITDA margin and the first query I think Parag will respond to your query. On the volume guidance is while we are not giving any volume guidance clearly I see there the

organization meet at this stage we have expanded in terms of additionally two CNG stations over the first half of this year. Over and above that we have one new fresh licenses in the ninth round and tenth round. So all of this will get built up over a period of time. So I think directionally clearly the entity is poised for growth, but we are not giving any specific guidance for the balance half of the year.

Manikantha Garre: A little question here if you can please give me the split of term LNG and spot LNG in Q2 if it is handily available else I will take it later?

Suresh Manglani: We are not providing that breakup at the juncture and from time to time the organization evolve a strategy based on what are the term as well spot prices.

Manikantha Garre: One last question sir with the TOTAL coming into our company I hope they would be adding up some technological or strategic benefits would you able to comment on that like what sort of technology or strategy benefits they would be bringing in if at all they respond?

Suresh Manglani: See you had answered in your question only that with the TOTAL coming in which is one of the large conglomerate in oil and gas. We are definitely going to be getting lot of best practices and the technology which they have, and company is going to be benefitted with their best practices and you will see that increasingly as the transaction moves forward.

Moderator: Thank you. The next question is from the line of Sabri Hazarika from Emkay. Please go ahead.

Sabri Hazarika: I have three questions the first one is related to the TOTAL deal, so you have mentioned that we would be like looking to setting up petrol pumps also under this agreement, so is it right that you are looking into downstream oil retailing from this joint venture?

Suresh Manglani: Sorry what do you said please pardon?

Sabri Hazarika: This joint venture will include fuel retailing also petrol pump sale right?

Suresh Manglani: You are right.

Sabri Hazarika: And does it mean that the TOTAL by some chance is interested in getting into buying BPCL and then you would also be a partner into that kind of a deal?

Suresh Manglani: See we will not be able to comment on a BPCL deal which is still the government is yet to even announce actually. So as far as our joint venture is concerned with Adani the first part was Adani city gas distribution and the second part is also setting up of a fuel retailing outlets because this makes lot of synergy between gas, CNG station business as well as the fuel retailing. We are anyway colocating currently significantly. So this will help us to make a good synergy between both the businesses and yes there is a plan for setting up of a petrol pump under the joint venture.

Sabri Hazarika: Second question is you have added two areas to your operational areas one is of course Palwal which is the other one that you have added?

Suresh Manglani: Palwal and Porbandar.

Sabri Hazarika: So in the next six months which other areas are expected to be added in the operational part actually where we will see some change coming up?

Suresh Manglani: We are currently working in almost all ninth round areas and shortly we will start in tenth round areas. So we expect of course it is a currently we are laying the steel pipelines. So we are expecting that most of the areas will start monetizing in the later part of the year or early part of the next year.

Sabri Hazarika: Okay early part of FY21 you are saying right?

Suresh Manglani: Yes.

Sabri Hazarika: And a few bookkeeping question the first one is what was the H1 standalone CAPEX for the company?

Suresh Manglani: Indicatively, we have already started spending as far as the ninth and tenth round of GAs are concerned. So to say also we keep expanding selectively even on the existing 4GAs all put together or if I have to add the number as far as totally being spent or at least being committed to spent this number will be in the range of upwards of 600 crores.

Sabri Hazarika: That is for the full year and this one would be how much?

Suresh Manglani: Not full year for the first half of the year.

Sabri Hazarika: Okay first half you have committed CAPEX as well as cash CAPEX together is around 600 crore?

Suresh Manglani: That is correct.

Sabri Hazarika: Secondly, what was the CNG gross revenue for Q2 and H1?

Moderator: Thank you. The next question is from the line of Yogesh Patil from Reliance Securities. Please go ahead.

Yogesh Patil: In a recent news flow we are reading that natural gas will come under a GST, so sir if you could please tell us how it will impact to Adani Gas FY20 or FY21 net profit that is my first question?

Suresh Manglani: See if I understood your question correctly you are saying government is considering to bring natural gas under GST regime. So for entire natural gas industry including CGD industry and also for our industrial customer this is going to be a positive view. Now how much it will impact and to us to industrial customers of oil and natural gas industry that we need to see what actually finally happens and what final prints over GST coverage. So I would request you to let us wait for that movement to happen and then we determine what is implication for us

as well as for our customers, but on a directional basis it is going to be positive implication?

Yogesh Patil: Sir, any ballpark number from your side and secondly will it impact positively on CNG consumer more or a PNG industrial consumer more?

Suresh Manglani: That is what I am saying see we need to see what is going to be announced finally. So then when the ballpark figure come then only PNG and CNG figures will come. So we need to see what is today CNG has excise as well as the VAT, PNG has only the VAT. So let this announcement happen that is what I am saying, we are preempting lot of things unless we see the notification happening of the GST.

Yogesh Patil: And my second question is related to Mundra LNG terminal, so can you give us some update on its commissioning and when would it start operation any idea?

Suresh Manglani: See Mundra is a part of a LNG business growth. We are actually part of the CGD growth business. So we need to raise that question to that LNG group.

Moderator: Thank you. The next question is from the line of Nitin Tiwari from Antique Stock Broking. Please go ahead.

Nitin Tiwari: So related to CNG station so just wanted to understand how many CNG stations have we added in this quarter and in the first half one is that and secondly what is the geographical distribution of our CNG stations so the 86 stations that you pointed out how are this spread across the GAs you are operating?

Suresh Manglani: Can you please repeat the later part of the question?

Nitin Tiwari: So I asked that how are the 86 CNG stations spread across the GAs we operate?

Suresh Manglani: For six months we have added four stations and other are under various stage of implementation. So maybe by next six months we will have another 24 to 30 stations.

Nitin Tiwari: Next six months would be 20 more stations?

Suresh Manglani: 30. So this spread of 86 stations you can tell me. 60 are for Ahmadabad and balance for Vadodara, Faridabad, Khurja, Palwal and other places.

Nitin Tiwari: So you do not have ready numbers for each of these GAs?

Suresh Manglani: Faridabad is 16, Vadodara is 6, Khurja 1, Palwal 2, Porbandar 1, the total is 86.

Nitin Tiwari: So the 30 stations that we are talking about this was coming up in the ninth round GAs that you would be like you are working on or this was also in the existing GAs and you are expanding the net worth?

Suresh Manglani: I think totally I think in terms of the rest half we are adding largely of course in the new GAs while selectively we will keep picking opportunities in the existing 4GAs suddenly out of the current 86 of September bulk is in the existing licenses, but the newer ones that we are aiming we should expect most of them coming for the ninth and the tenth round.

Moderator: Thank you. The next question is from the line of Rohit Ahuja from BOB Capital. Please go ahead.

Rohit Ahuja: Sir, two questions from my side one can you specify the scope of arrangements in TOTAL; and what changes we will see in your any area of operations and what are the new business opportunities you are looking at if you could explain that?

Suresh Manglani: Any second question you had actually this is the first question?

Rohit Ahuja: Second question the addition of natural gas to GST I mean at what rate do you expect it and by when do you expect it to complete?

Suresh Manglani: So the first question was about the TOTAL and Adani partnership. See as we had announced earlier it is a 50-50 joint venture in the sense that today Adani Gas is having 74.8% equity coming from Adani group or Adani family and 25.2% is the public shareholding. So of the 74.8%, 50% has been divested is proposed to be divested to the TOTAL. So going forward once the transaction is complete 37.4% will be held by Adani, 37.4% will be held by TOTAL and 25.2% would continue to remain with public. So in terms of the trade in the operation it will be Board managed company. So board also have an equal representation from both Adani and TOTAL and as per the Companies' Act requirement remaining will be independent director. So rest the company as I said they will be professionally managed by the CEO, CFO as well as the other employees and from a TOTAL Adani perspective it is a board managed company. The scope will be City Gas distribution, fuel retailing and the lubes business and everything associated to this business.

Rohit Ahuja: You said lubes business?

Suresh Manglani: Lubes as a part of as the fuel retailing lubes will be sold. Lubes also will become another part of the business there, but we will not be manufacturing lubes or something we are lying with our total business.

Rohit Ahuja: So fuel retailing is when you are looking at setting up petrol, diesel stations of that be so this was this new policy announced for setting up fuel station government ease the norm and they said that each new station can have an alternate fuel also should be available like a CNG so I guess all your CGD stations would qualify for us?

Suresh Manglani: See the new guidelines I mean it is yet to be notified what you have read, and we have read in the newspaper that while approving the cabinet

added one more requirement. Now in the next three years from the date of announcement every station should have some alternate fuel whether it is CNG or LNG or EV or something. So we need to see what is the final print comes, but even that new requirement goes with the good synergy with our business because we also have a CNG as well as fuel retailing.

Rohit Ahuja: All your CNG stations also to be part of the fuel retailing can that be done?

Suresh Manglani: The way it will happen is see we have a target of 1,500 fuel retailing stations and we have 500 stations coming under Adani Gas what we have committed under minimum program. Now there could be dedicated CNG station, there could be CNG station with petrol pump or there could be dedicated fuel retailing pumps. It will all depends upon how do we work out the whole network planning and potential demand in each outlet.

Rohit Ahuja: So I mean your existing CNG stations would be having space to accommodate the petrol and diesel?

Suresh Manglani: That is what we are going to be working on that if there is a possibility of accommodating yes we will accommodate it, but in any case every fuel retail outlet the next three years what you read the guidance that we get the final notification we need to work out how to add the alternate fuel.

Rohit Ahuja: But given the criteria are given your company easily qualifies for that?

Suresh Manglani: See the qualification part is earlier the qualification was that you need to come at investment of Rs. 2,000 crore in hydrocarbon business. Now that has been dispensed with if the final notification comes the way it has been read by all of us.

Rohit Ahuja: I think that is 250 crore now minimum net worth for that company?

Suresh Manglani: We will qualify into the net worth itself more we need to commit minimum 100 retail outlets to be developed in the next seven years that is the government requirement, guidelines requirement that you need to commit minimum 100 retail outlets of seven years out of which five remaining outlets has to be set up in remote service areas.

Rohit Ahuja: So that means all the other CGD companies also for them this is an opportunity to include this fuels as well?

Suresh Manglani: See this is a major reform which government is undertaking not only CGD companies several other companies will get qualified whosoever has 250 crore net worth and who is ready to commit on this setting of 100 retail outlets and you need to understand this business nuances as well.

Rohit Ahuja: How does this work the other way round for oil marketing companies which are already having stations then thus the PNGRB is this scenario where they cannot set up CNG stations where you have marketing activity and GAs licenses?

Suresh Manglani: No, so PNG regulation shall work as per the guidelines which they have notified. So let us say if IOC or any OMC has any geographical area they have to fulfill the obligation under that geographical area. So because that is a CGD business they are doing it under PNGRB regulation, and this fuel retailing will be gone under this notification which will come. So this will work together if somebody want both the business, but we need to comply with both the guidelines separately the CGD business as well as for fuel retailing business.

Rohit Ahuja: So then your scope of investment at JV with TOTAL then would change significantly if you were to get the clearance for setting up petrol, diesel along it seems.

Suresh Manglani: So that is what happening even now we are colocating significantly and every CGD companies only collocating significantly. So same thing is going to happen in future that if we are setting up a fuel retail outlet since we will have a synergy and that there is a demand of the CNG we will colocate CNG there and if I am setting up a CNG station So this is the good synergy between two businesses that is the reason this business is coming under Adani Gas.

Rohit Ahuja: So is TOTAL also looking to buy of stake in the Mundra LNG terminal I mean there investment scope expand to all the other at Adani group companies I mean how does it work?

Suresh Manglani: I would not be able to comment on that because I look after CGD gas distribution business and this query has to be referred to the TOTAL actually.

Rohit Ahuja: But at the group level I mean the Adani group is not looking to integrate all the gas businesses under one umbrella like you know the entire value chain LNG terminal you also have the Dhamra LNG Terminal everything under Adani Gas do they plan to do that?

Suresh Manglani: Currently I think we should restrict to this financial results difficult for me to comment on that strategy part of a group actually.

Rohit Ahuja: I mean just I would add one more question apart from that GST question, could you please repeat the breakup of the volumes for industrials into I mean PNG into industrial commercials and others please?

Suresh Manglani: Yes what I stated was the overall breakup of first half is CNG is 146 million and PNG is 137 million. So put together becomes 283 million.

Rohit Ahuja: And within PNG sir?

Suresh Manglani: And within it you will find PNG industrial volume is 105, PNG domestic is 24 and PNG commercial is 8

- Moderator:** We move to the next question the next question is from the line of Nirav Shah from GeeCee Investments. Please go ahead.
- Nirav Shah:** So two questions firstly on the cash outgo for the next three years sir can you just please elaborate on what will be investment in terms of cash outgo for this current year next year and FY22 because we have a larger pipeline for both standalone as well as the JV? Second question is just a bookkeeping I mean what is the gross debt I mean as of September 19 these are the two questions?
- Suresh Manglani:** So I think firstly address the first question Nirav clearly we have already won licenses within the ninth and the tenth round that adds up 15 more geographical areas for us. This will entail its own CAPEX while we are not giving any specific numbers on the GAs, but I think all put together the GAs could range of approximately of CAPEX of anywhere around 5,000 odd crores so that is the CAPEX that we are entailing as far as the CGD business is concerned.
- Nirav Shah:** This is for standalone only or this includes the JV?
- Suresh Manglani:** This includes the standalone I am talking about CAPEX. As far as the JV is concerned there are of course a CAPEX being planned at the JV level also as you are aware we are a 50% equity holder. So I think to the residual tune of what is required to be invested as a 50% partner is what we will invest into IOAGPL. So those plans are being drawn up as far as IOAGPL is concerned separately. So this is where we are. As far as the current outstanding debt is concerned as per 30th of September it is close to about 400 odd crores.
- Nirav Shah:** And sir the follow up on standalone debt 5,000 crore CAPEX is over what period?
- Suresh Manglani:** So this kind of CAPEX is from a long term perspective so this will be you know spent over a period of at least say five years.

Moderator: Thank you. The next question is from the line of Manikantha Garre from Axis Capital. Please go ahead.

Manikantha Garre: Sir, if I understand it correctly I thought Dhamra LNG Terminals is part of TOTAL stake acquisition or the deal that you have done?

Suresh Manglani: That is the LNG deal it is a separate JV. This transaction which we announced was a partnership with Adani Gas-TOTAL JV. So that transaction is separate.

Manikantha Garre: Sir, my second question is will you be looking to pass on the corporate tax rate cuts to the customers in the future?

Suresh Manglani: I think as far as see corporate tax is one part but as far as pricing is concerned and as far as passing on to the consumer is concerned this is a very dynamic scenario it boils down to volumes, demand, specific locations across the various territories we are. So I think it is not about directly correlating of corporate tax across the entire GA-wide we have.

Moderator: Thank you. The next question is from the line of Rohit Ahuja from BOB Capital. Please go ahead.

Rohit Ahuja: Would you please clarify the volume breakup of Q2?

Suresh Manglani: Q2 actually TOTAL is 146 MMSCM, 75 is CNG and 71 is pipe gas PNG. So within the pipe gas 54 is industries, 12 is domestic and 4 is commercial.

Rohit Ahuja: Sir, lastly on the GST if you could clarify I think I missed that answer on that?

Suresh Manglani: No, the GST I was telling that you know it is yet to happen and we do not know in what form, what shape it will come finally because in CNG you have excise duty plus VAT and PNG there is only VAT or CST regime today. So I would request all of you to please wait this

development to take place and then we work out what is the implication, but on a directional basis for a gas industry it is going to be positive for even CGD as well as CGD industrial customers and other customer this will be a positive news.

Rohit Ahuja: We have LPG which is at 5% GST, so would it be at par with LPG?

Suresh Manglani: Difficult to say there is a policy makers who will decide for us it would be difficult to say what rate and what shape it will become.

Rohit Ahuja: And if you can clarify what has been a hindrance till date for the government to include gas and GST?

Suresh Manglani: It is an issue which government is having about the petroleum products high petroleum products. So this whole GST came in excluding this five petroleum products and now I think government has the implication to take all the products into GST. Gradually this will happen I think we should leave it that way that government is working out and there is a federal structure, so they need to work out with all the state governments and there is a GST council which comprises of state as well as center. So hopefully soon gas should come under GST and a positive framework will be developed by the government for the CGD and CNG consumers that is what we can say that.

Moderator: Thank you. The next question is from the line of Yogesh Patil from Reliance Securities. Please go ahead.

Yogesh Patil: Sir, recently have you reduced PNG product prices after the downward revision of APM gas prices in October 19?

Suresh Manglani: Yes we had reduced, and we have issued the price circular revised price circular also immediately after the prices were revised.

- Yogesh Patil:** Sir, if we compare this spot LNG prices FY20 and the current spot LNG prices, so the spot LNG prices are move up, so have you taken any price hike PNG industrial product is?
- Suresh Manglani:** See as we said you know as far as industrial commercial is concerned the way it works is we buy the market price gas and we do the price dynamics basis as Parag – our CFO was saying earlier where are the dynamics factors, the geographical area, the fuel which the customer predominantly they are using it and basis that we determine of that we revise it quite frequently whenever opportunity requires us to revise whether it is a spot price coming down or going up or any other factors affecting the cost. So this is a dynamic scenario which operates for industrial commercial.
- Yogesh Patil:** So have you revised the prices in last one and half months or not?
- Suresh Manglani:** You are talking of industrial customer or CNG?
- Yogesh Patil:** Yes PNG pipe natural gas industrial customer?
- Suresh Manglani:** PNG pipe natural gas industrial for home for industrial commercial.
- Yogesh Patil:** Industrial.
- Suresh Manglani:** So industrial that is what I responded to you I was getting confused whether you are talking about CNG. Any question you have now further?
- Yogesh Patil:** No.
- Moderator:** Thank you. That was the last question as there are no further questions I would like to hand the conference back to the management team for closing comments.
- Suresh Manglani:** Thank you very much for participating, look forward for your participating in the future calls as well.



*Adani Gas Limited
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Moderator: Thank you very much. On behalf of Adani Gas Limited that concludes the conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.